



NEW UNIVERSE

International Group Limited

(Incorporated in the Cayman Islands with limited liability)



ANNUAL REPORT 2003

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Hua Zhixiang (*Chairman*)
Tang Kwok Yuen (*Vice-Chairman*)
Xi Yu
Chan Loong Sang, Tommy (*i*)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Chan Yan Cheong
Yuen Kim Hung, Michael

REGISTERED OFFICE

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P.O. Box 2681GT
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Grand Cayman
British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Rooms 1802-1803
Telford House
16 Wang Hoi Road
Kowloon Bay
Kowloon
Hong Kong

WEBSITE

<http://www.nuigl.com>

COMPLIANCE OFFICER

Hua Zhixiang

QUALIFIED ACCOUNTANT

Chan Loong Sang, Tommy

COMPANY SECRETARY

Fung Kwai Ming

AUTHORISED REPRESENTATIVES

Hua Zhixiang
Tang Kwok Yuen

MEMBERS OF THE AUDIT COMMITTEE

Dr. Chan Yan Cheong
Yuen Kim Hung, Michael

STOCK CODE

8068

AUDITORS

Ernst & Young

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Bermuda (Cayman) Limited
P.O. Box 513 G.T.
3rd Floor
British American Tower
Dr. Roy's Drive
George Town
Grand Cayman
Cayman Islands
British West Indies

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tengis Limited
Ground Floor
Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

Note: (i) Mr. Chan Loong Sang, Tommy was appointed on 2 January 2003.

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This annual report, for which the directors of NEW UNIVERSE INTERNATIONAL GROUP LIMITED collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of The Stock Exchange for the purpose of giving information with regard to NEW UNIVERSE INTERNATIONAL GROUP LIMITED. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:– (1) the information contained in this annual report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this annual report misleading; and (3) all opinions expressed in this annual report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

CONTENTS

CHAIRMAN’S STATEMENT

2

MANAGEMENT DISCUSSION AND ANALYSIS

8

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

11

REPORT OF THE DIRECTORS

13

REPORT OF THE AUDITORS

18

AUDITED FINANCIAL STATEMENTS

CONSOLIDATED:

PROFIT AND LOSS ACCOUNT

19

BALANCE SHEET

20

SUMMARY STATEMENT OF CHANGES IN EQUITY

22

CASH FLOW STATEMENT

23

COMPANY:

BALANCE SHEET

25

NOTES TO FINANCIAL STATEMENTS

26

FINANCIAL SUMMARY

59

NOTICE OF ANNUAL GENERAL MEETING

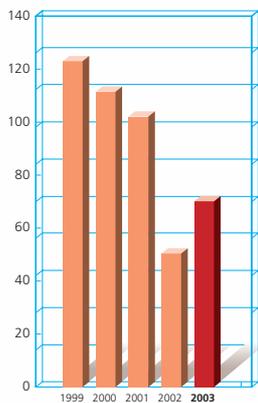
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CHAIRMAN'S STATEMENT

“The Board has turned the Group around into a profitable operation. The Group made a net profit after taxation of HK\$11.7 million in 2003 and a net asset value of HK\$52.7 million in 2003. The basic earnings per share for the year ended 31 December 2003 was HK1.68 cents.”

Turnover

HK\$'million



On behalf of the board of directors (the “Board”) of New Universe International Group Limited (the “Company”), I am pleased to present to the shareholders the annual report of the Company together with its subsidiaries (the “Group”) for the year ended 31 December 2003.

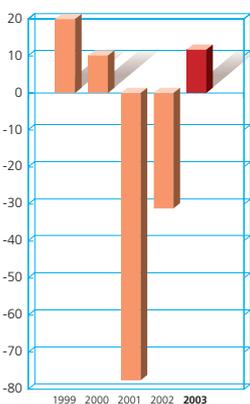
BUSINESS REVIEW

The Board is proud of reporting our performance on turning the Group around into a profitable operation. The Group made a net profit after taxation of 11.7 million in 2003, whereas a net loss of HK\$31.2 million was incurred in 2002.

The net asset value of the Group increased sharply to HK\$52.7 million as at 31 December 2003 from HK\$13.0 million in the previous year as the Board improved operations through (i) open offer and loan capitalisations, (ii) flexible marketing strategies, (iii) effective cost controls, (iv) total quality management and (v) streamlining the business operations.

Net Profit

HK\$'million



(i) Open offer and loan capitalisations

The Group enjoys a sound financial position under the leadership of its experienced management team and support of a shareholder, New Universe Enterprises Limited (“New Universe”). The Group raised approximately HK\$4.7 million, before expenses, by way of open offer of 94 million shares at a subscription price of HK\$0.05 per share in April 2003. In addition, during the period from April to December 2003, the Group capitalised of shareholder’s loans amounting to HK\$10.0 million and HK\$15.0 million to subscribe of 200 million and 300 million new shares of the Company, respectively at a subscription price of HK\$0.05 per share. As at 31 December 2003, no outstanding shareholder’s loan was due by the Company to New Universe. Both the open offer and the loan capitalisations have improved the financial position of the Group and lowered its gearing ratio.

CHAIRMAN'S STATEMENT

“The Group achieved a turnover of approximately HK\$70.1 million, a sharply increase of 39% over the previous year. Over 30% of the Group's turnover in 2003 was derived from newly explored customers. With existing reputable international customers and effective cost controls, the gross profit margin of the Group increased sharply to approximately 25% in 2003 from 11% in the previous year.”



(ii) Flexible marketing strategies

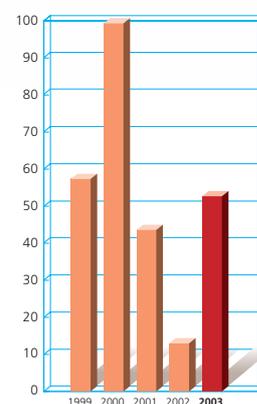
The Group strongly relied on the sales derived from North America in the past. However, the softening United States economy has led to the fact that customers are more cautious when placing orders. The Group endeavoured to minimise the adverse effects of the unfavourable US economy by utilising its solid experience in the industries and flexible marketing strategies. During the year under review, the Group has redefined its marketing position to maintain existing reputable international customers to capture opportunities in high growth in gross profit and divert more resources, such as time, labour and production capacity to expand its customer bases and extend its geographical coverage. Over 30% of the Group's turnover in 2003 was derived from newly explored customers. During the year under review, the Group participated in industry exhibitions in Europe and U.S. and has successfully explored new markets in both Germany and Turkey. The sales from Europe constituted approximately 10% (2002: 3%) of the Group's turnover in 2003. The Group's satisfactory achievements during the year under review is a solid proof of ability to initiate effective policies to capitalise and explore on any business opportunities.

(iii) Effective cost controls

The Group has outsourced non-core production activities to control of its workforce to meet the substantial growth in sales turnover. The Group has strictly implemented a series of measures to control over the operation costs, such as consumption of public utilities instead of generators to reduce power costs, decrease in staff employed in administrative departments to reduce staff costs, enhancement inventory management to reduce both inventory storage costs and obsolete inventories, and exercising tight credit controls to reduce its bad debt expenses.

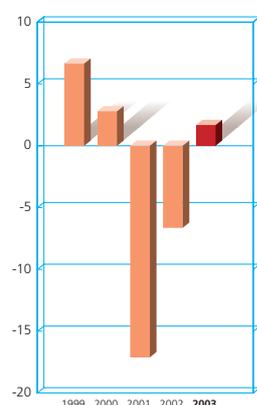
Net Asset Value

HK\$'million



Earnings Per Share

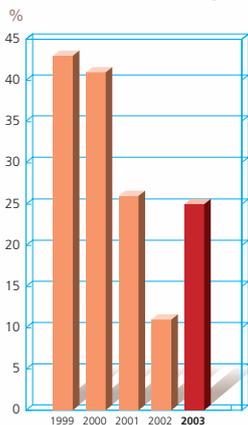
HK cents



CHAIRMAN'S STATEMENT

“Quality is one of key elements maintaining reputable international customers and contributing to the Group’s success and growth. Advanced technologies, Professional Injection Mold System and Enterprise Resource Planning System have achieved design and process quality assurances. A supply chain has been established to maintain long term and close relationships across suppliers in various countries to achieve supplier quality assurance.”

Gross Profit Margin

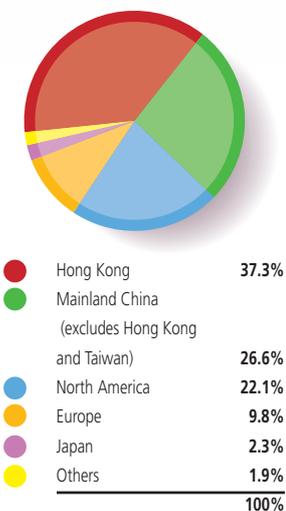


(iv) Total quality management

The Group’s commitment to quality is one of the key elements contributing to its success and growth. As such, it is virtually important for the Group to ensure that its quality would not be sacrificed in a high growth environment. The Group has made significant progress in refining and enhancing its products and services by improving the quality of its operation. The Group focuses on activities to achieve design quality assurance, process quality assurance and supplier quality assurance resulting in a strong foundation for the Group’s future growth.

The Group has been reputable for advanced machineries and technologies to achieve design quality assurance and process quality assurance. With the aid of the software, Professional Injection Mold System, mold can be designed directly from the computer-aided design immediately to achieve efficient and high quality production process. During the process of production, the Group is able to handle customer orders within a competitive order lead-time and material planning with accurate information with the current introduction of Enterprise Resource Planning System. In addition, the Group’s supplier quality assurance is guaranteed as the Group has established long term and close relationships with its suppliers to achieve a strong bargaining power with its bulk purchases of raw materials with stringent quality control.

Geographical Segment



(v) Streamlining the business operations

The Group disposed or de-registered subsidiaries of the Company that had not contributed to Group’s profit to streamline the business operations. After the disposal or de-registration, the Board can divert more resources, time and funds for administrative activities to focus on the core business on the design, manufacturing and trading of mold and plastic products.

CHAIRMAN'S STATEMENT

“The prospects in the coming year are positive with the support from our critical suppliers, the broadening of customer bases through capitalisation on customer networks in molding business and the expansion of production capacity by installation of new plant and machinery in plastic injection business .”



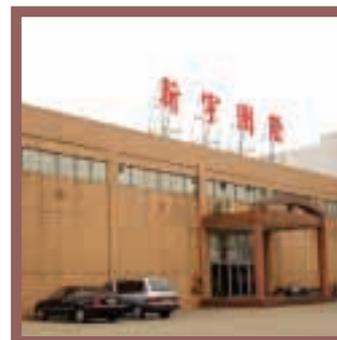
PROSPECTS

The Group's success has been made under the leadership and guidance of our professional management with extensive experience in both molding and plastic industries.

The Group's two business divisions, molding and plastic product trading are each executing business plans that emphasise a combination of increasing sales turnover to existing and new customers. The prospects for improvements in the coming year are also positive despite a general decline in selling prices under keen competition. The support from our critical suppliers, the broadening of molding customer bases through capitalisation on customer networks in Mainland China and the expansion of production capacity by installation of new plant and machinery in plastic injection business will make additional contributions to the Group's profits. With the synergies by New Universe, the Board believes that the Group will be emerged stronger by the gradual recovery in the economy.

Capitalisation on customer networks in Mainland China

Mainland China posted a substantial 9.17% growth in GDP in 2003 and has become a global manufacturing base with a booming domestic consumption market. Various industries in the world, including tooling industry, capture business opportunities in Mainland China to take advantage on its vast business growth competent and low cost labour force as well as abundant resources. Tooling is the most widely used and has become a necessity in production because it can achieve mass production, consistent quality, high productivity and cost effectiveness. Many manufacturers have chosen to outsource and subcontract partial production process, especial tooling to professionals who are specialists in this process. In view of the increasing number of foreign companies setting up their factories in Mainland China to increase their cost and operational competitiveness, and the need to purchase tooling parts locally, creating a surging demand for quality and efficient tooling services in Mainland China, especially in Changjiang River Delta.



CHAIRMAN'S STATEMENT

“In order to capitalise on customer networks and capture business growth opportunities in Shanghai and the region of Changjiang River Delta, the Group has acquired of 10% of the share capital of Bestwin owning the entire equity interest in a factory with a gross floor area of approximately 34,000 square meters, namely as Suzhou New Universe Tooling and Plastic Limited.”



Currently, the Group has a few customers with approximately 9% (2002: 4%) of turnover from Shanghai and the region of the Changjiang River Delta. The management anticipates that business opportunities for the Group around Shanghai and the region of the Changjiang River Delta will increase. In order to capture the business growth opportunities and further explore Mainland China market, the Group has acquired of 10% of the shares capital of a limited company in Hong Kong (“Bestwin”) which owns the entire equity interest in a factory in Suzhou, Mainland China, namely as Suzhou New Universe Tooling and Plastic Limited (the “Factory”), with a gross floor area of approximately 34,000 square meters. The Factory is located and operates in Suzhou near Shanghai and in the region of Changjiang River Delta. The management plans to capitalise on customer networks to further enlarge customer base in Mainland China and to develop business opportunities for the Group around Shanghai and Changjing River Delta in order to further expand its market share in Mainland China. The Board believes that the Factory will not compete with the business of the Company although there is no non-competition undertaking between Factory and the Group. The Board considered the Factory is mainly responsible for small and simple mold products while the business of the Group is engaged in large and sophisticated products.



Vertical integration in plastic product division

The Group has formed a new team within plastic product division to introduce a new technology-know-how, “Smart Color” to provide the complete value chain in plastic products, which allows the customers by using liquid colorants in the dyeing plastic products. While achieving effective cost and quality controls, full vertical integration also helps enhance capabilities to provide convenient one-stop services to its valuable customers.

Smart Color®

CHAIRMAN'S STATEMENT

“In order to satisfy the growing demand for various kinds of plastic products under the continuous recovery of the economy, the Group has rented an additional factory site with production floor area over 10,000 square meters and acquired 12 sets of plastic injection machines for the increase in its production capacity.”



Expansion in plastic production capacity

The continuous development of the economy has increased the demand for various kinds of consumer products and electronic audio-visual devices and appliances. To capture these market potentials, the Group has rented an additional factory site in Dongguan, Mainland China, with production floor area of more than 10,000 square meters and acquired 12 sets of plastic injection machines with HK\$1.5 million for the increase in its production capacity and the growing demand of plastic products.



Institution a lawsuit to claim for losses and damages

The Company has sought advice from its legal adviser on the illegality of the back-up diesel generator. In the second quarter of 2004, appropriate actions will be taken against the vendor and the vendor's guarantor under the sale and purchase agreement dated 12 January 2001 in relation to the acquisition of the entire issued share capital of Sky Datamann International Limited and its subsidiary, Sky Datamann (Hong Kong) Limited, ("SkyDatamannGroup") and the loans made by the vendor to SkyDatamannGroup. The Group is entitled to claim for losses and damages or rescind the sale and purchase agreement with a consideration of HK\$140 million because of misrepresentation or breach of warranties by the vendor and the vendor's guarantor. On 19 March 2003, the Group disposed of its entire issued share capital in Sky Datamann (Hong Kong) Limited for a consideration of HK\$1.



The Board is confident in rebuilding the Group as one of the leaders in the tooling and plastic injection business in the Asia Pacific Region and it is anticipated that the Group will be emerged stronger and better equipped for growth in the coming economic recoveries.

APPRECIATION

On behalf of the Board, I would like to thank our shareholders, customers, suppliers and employees for their continuing loyalty, hard working and dedication to the Group.

By Order of the Board
Hua Zhixiang
 Chairman

Hong Kong, 26 March 2004

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW



The Group achieved a turnover of approximately HK\$70.1 million (2002: HK\$50.4 million) which represented a sharply increase of 39% over the previous year. During the year, revenue generated from mold products accounted for 59% (2002: 67%) of the Group turnover while plastic products contributed the remaining 41% (2002: 33%). The Group has successfully maintained existing reputable international customers to capture opportunities in high growth in both sales and gross profit. With the expansion of its customer bases and extension of its geographical coverage, over 30% of the Group's turnover in 2003 was derived from new customers.



Cost of sales for the year ended 31 December 2003 amounted to approximately HK\$52.9 million, representing an increase of 17% from HK\$45.1 million in the previous year. The production costs did not increase to the same extent as the increase in turnover. This was attributable to the fact that the Group has effectively controlled certain overheads, such as direct labour, consumptions of raw materials and obsolete inventories; and achieved greater productivity by means of outsourcing of non-core production activities.

The gross profit margin of the Group has sharply been increasing to approximately 25% (2002: 11%).



The aggregate of administrative expenses and other operating expenses of the Group decreased by 60% to HK\$13.6 million from HK\$34.5 million in 2002. The sharp decrease was mainly attributable to the fact that no further administrative expenses were incurred after ceasing of overseas operation in Canada and operation costs were effectively controlled by the Board, including decrease the redundant staff employed in administrative departments and decrease in bad debt expenses.

The majority of the Group turnover is derived from the mold products. For the year ended 2003, mold products reported a turnover of HK\$41.4 million, a 22% increase from HK\$33.8 million in the previous year. The increase was mainly attributable to the fact that the Group has successfully expanded its customer bases and extended geographical coverage.



Plastic products experienced a sharply increase in turnover of 73% to HK\$28.7 million in 2003 from HK\$16.6 million in 2002. Such increase was mainly due to the increasing of sales orders from customers under the positive market sentiment and expansion of its customer bases.

MANAGEMENT DISCUSSION AND ANALYSIS

The major sales regions of the Group in 2003 – Hong Kong, Mainland China and North America have increased by 84%, 41% and 58% respectively. In year 2002, Hong Kong, Mainland China and North America were the major sales regions of the Group. The sales from these regions constituted over 86% (2002: 74%) of the Group's turnover.

Investment

The Group entered into an agreement with two independent third parties to contribute technical support services amounted to HK\$1.5 million in exchange for 10% of equity interest in Bestwin which owns the entire equity interest in the Factory.

Net profit from Ordinary Activities Attributable to Shareholders

The Group recorded a net profit after taxation of HK\$11.7 million for the year ended 2003, whereas a net loss of HK\$31.2 million was recorded for the year ended 2002.

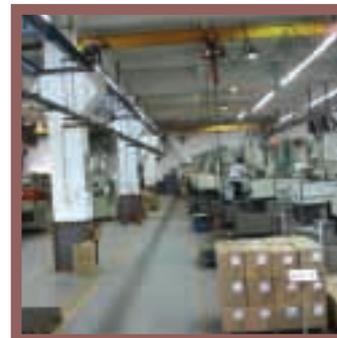
Liquidity and Financial Resources

The Group generally financed its operations and investing activities with internally generated cash flows and trade facilities granted by a banker.

As at 31 December 2003, the Group had total cash and bank balances of approximately HK\$9.1 million. The Group had outstanding borrowings of approximately HK\$9.5 million, comprising secured trust receipt loans of approximately HK5.3 million and finance lease payables of approximately HK\$4.2 million. Out of the total indebtedness, approximately HK\$8.2 million is repayable within one year. The gearing ratio was 82% as at 31 December 2003, representing total liabilities of HK\$43.2 million divided by capital employed of HK\$52.7 million.

Capital Structure

Save as disclosed in "Chairman's Statement" and in "Management Discussion and Analysis" of this annual report, there were no material change in the capital structure of the Company for the year ended 31 December 2003.



MANAGEMENT DISCUSSION AND ANALYSIS



Material Acquisition and Disposals of Subsidiaries

Save as disclosed in “Chairman Statement” and “Management Discussion and Analysis” of this annual report there were no significant investments nor material acquisition and disposals of subsidiaries and affiliated companies of the Company during the year.

Employee Information

As at 31 December 2003, the Group had 557 (2002: 475) full-time employees. Staff costs, excluding directors’ remuneration but including amount capitalised as work-in-progress was HK\$11.4 million (2002: HK\$16.2 million) for the year ended 2003. Employees were paid at market remuneration with bonus and benefits of medical insurance, mandatory provident fund, share options and necessary training.



Charges on Assets

With the net book value of fixed assets of the Group of HK\$56.1 million (2002: HK\$60.0 million), the net book value of fixed assets held under finance leases amounted to HK\$10.4 million (2002: HK\$15.3 million) as at 31 December 2003. Apart from the finance lease arrangement, there were no charges on assets as at 31 December 2003.



Exposure to Exchange Rate Fluctuations

During the year ended 31 December 2003, the Group experienced only immaterial exchange rates fluctuations as most of the Group’s monetary assets and liabilities were denominated and most of the business were conducted in Hong Kong Dollars, US Dollars and Renminbi, and all of which were relatively stable during the period under review. The Group considered that as the exchange rate risks of the Group is considered to be minimal, the Group did not employ any financial instruments for hedging purposes.



Contingent Liabilities

Details of the significant contingent liabilities of the Group are set out in note 31 to the financial statements.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Hua Zhixiang, aged 34, is the Chairman and the compliance officer of the Company. Mr. Hua is responsible for the overall policy setting, management and strategic development. He holds a bachelor's degree in arts and a bachelor's degree in laws from the Foreign Affairs College, Beijing. Before he joined the Board in 2002, he had over 9 years of extensive experience in the financial and investment sector and had held senior positions in companies in financial and investment services.

Mr. Tang Kwok Yuen, aged 51, is Vice-Chairman and General Manager of the Company. Mr. Tang is responsible for the sales and marketing, research and development and engineering functions. He holds a master's degree in business administration from the International University of America in the United States of America and a diploma in management studies from the Hong Kong Polytechnic University. He has over 20 years of experience in the molding and plastic industries.

Mr. Xi Yu, aged 46, is an Executive Director of the Company. Mr. Xi is responsible for corporate strategic planning and development. He graduated from the Chemistry Department of the University of Beijing in 1980. Prior to his joining the Board in 2002, he has over 17 years of experience in the plastic industry. He was the Deputy Managing Director of Sinochem Plastics (HK) Ltd. from 1988 to 1995.

Mr. Chan Loong Sang, Tommy, aged 32, is an Executive Finance Director of the Company. Mr. Chan is primarily responsible for the financial planning, investment activities and corporate financial management. He holds a bachelor's degree of commerce with double majors in accountancy and finance from the University of Lethbridge Alberta in Canada. He is a member of the American Institute of Certified Public Accountants, a fellow member of the Hong Kong Society of Accountants and the Association of Chartered Certified Accountants, and an affiliate member of Hong Kong Securities Institute. He has worked for international accounting firms and has extensive experiences in accounting, tax, auditing and corporate finance prior to joining the Board on 2 January 2003.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Independent non-executive Directors

Dr. Chan Yan Cheong, aged 50, is an independent non-executive Director of the Company. Dr. Chan joined the Board in 1999. He holds a Ph.D. degree in electrical engineering from Imperial College of Science and Technology, University of London and a master of business administration from the University of Hong Kong. He is also qualified as a chartered engineer. He is currently a chair professor in the department of electronic engineering of the City University of Hong Kong and a director of centre for electronic packaging and assemblies, failure analysis and reliability engineering. He has authored or co-authored over 160 technical publications in reference journal and conference proceedings.

Mr. Yuen Kim Hung, Michael, aged 42, is an independent non-executive Director of the Company. Mr. Yuen joined the Board in 2002. He holds a professional diploma in accountancy from the Hong Kong Polytechnic University. He is a member of Hong Kong Society of Accountants and Certified General Accountants Association of Ontario. He is also a fellow member of Association of Chartered Certified Accountants. He has more than 10 years of accounting, tax and auditing experience. He is currently practising as a certified public accountant in Hong Kong.

SENIOR MANAGEMENT

Ms. Wong Mui Kwai, Portia, aged 39, is a Deputy General Manager of the Group. Ms. Wong is responsible for administration, purchasing and documentary control of the Group. She holds a bachelor's degree of arts in accountancy with second class honors, Division 1, from the Hong Kong Polytechnic University. Prior to her joining the Group in June 2002, she has over 10 years of experience in accounting and administration in the fields of manufacturing and trading.

Mr. Zheng Wei Jian, Jacky, aged 39, is an Executive Director and Deputy General Manager of Dongguan Smartech Tooling and Plastics Limited, a wholly-owned subsidiary of the Group. Mr. Zheng is responsible for plastic product production and sales and marketing in Mainland China. Prior to his joining the Group in 2002, he worked as a senior project engineer and a technical consultant in a worldwide manufacturing company for over 8 years. He holds a bachelor's degree in mechanical engineering from Dalian Industry & Technology University. He has more than 10 years of experience in the molding and plastics industries.

Mr. Ramiz Hani Ammari, aged 31, is a Sales and Marketing Manager of the Group. Mr. Ammari is responsible for sales and marketing activities in overseas markets, especially in Europe. He holds a bachelor's degree in industrial engineering/manufacturing and production from Jordan University, Jordan. He has over 9 years of experience in sales and marketing in the molding and plastic industries.

Ms. Fung Kwai Ming, aged 39, is a Company Secretary of the Company. Ms. Fung holds a master degree in business administration (investment and finance) from the University of Hull. She is a fellow member in Chartered Association of Certified Accountants and Hong Kong Society of Accountants and a member of Hong Kong Securities Institute. She has been practising as a partner in a certified public accountants firm since 1999 and currently registered as an investment adviser under Securities and Futures Ordinance. She has more than 10 years of accounting, tax, auditing, finance and compliance experience. She had been registered as a dealer's representative and worked in the compliance division in the Stock Exchange of Hong Kong Limited for 5 years.

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Company and of the Group for the year ended 31 December 2003.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 16 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

FINANCIAL RESULTS

The Group's profit for the year ended 31 December 2003 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 19 to 58.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets and liabilities of the Group for the past five financial years is set out on page 59. This summary does not form part of the audited financial statements.

FIXED ASSETS

Details of movements in the fixed assets of the Company and the Group during the year are set out in note 15 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in notes 26 and 27 to the financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group are set out in note 28 to the financial statements and in the consolidated summary statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2003, the Company had no reserves available for distribution.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

REPORT OF THE DIRECTORS

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Mr. Hua Zhixiang (*Chairman*)

Mr. Tang Kwok Yuen (*Vice-Chairman*)

Mr. Xi Yu

Mr. Chan Loong Sang, Tommy (Appointed on 2 January 2003)

Independent non-executive directors:

Dr. Chan Yan Cheong

Mr. Yuen Kim Hung, Michael

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 11 to 12 of the annual report.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Except as detailed in note 32 to the financial statements, no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2003, the interests of the directors in the share capital of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange, pursuant to Rule 5.40 of the GEM Listing Rules, were as follows:

Name of director	Number of ordinary shares held (Corporate interest)
Mr. Xi Yu ("Mr. Xi")	<i>(Note)</i> 728,915,000

The interests of the directors in the share options of the Company are separately disclosed in note 27 to the financial statements.

Note: Mr. Xi is the beneficial owner of 16,350 shares in New Universe Enterprises Limited ("New Universe"), representing approximately 81.75 per cent. of the issued share capital of New Universe, which in turn holds 728,915,000 shares in the Company, representing approximately 68.51 per cent. of the issued share capital of the Company.

Save as disclosed above, none of the directors had registered an interest or short position in the shares, underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and Rule 5.40 of the GEM Listing Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the share option schemes disclosures in note 27 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEMES

Details of the Company's share option schemes are disclosed in note 27 to the financial statements.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 2003, the following interests of 5 per cent. or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company under Section 336 of the SFO:

Name	Capacity and nature of interest	Number of shares	Percentage of the Company's issued share capital
New Universe (<i>Note i</i>)	Directly beneficially owned	728,915,000	68.51
Mr. Xi (<i>Note i</i>)	Through a controlled corporation	728,915,000	68.51

Note:

- (i) New Universe is beneficially owned as to approximately 81.75 per cent. by Mr. Xi who is an executive director of the Company.

Save as disclosed above, no persons had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

CONNECTED TRANSACTIONS

Prior to 1 January 2003, New Universe advanced shareholder's loans to the Company with an aggregate amount of HK\$25 million. The shareholder's loans were unsecured and interest-free. During the period from April to December 2003, shareholder's loans amounting to HK\$10 million and HK\$15 million were respectively capitalised as 200 million and 300 million new shares of the Company at par value of HK\$0.05 per share. As at 31 December 2003, no outstanding shareholder's loan was due by the Company to New Universe.

As at 1 January 2003, the Company had contingent liabilities in relation to a cross guarantee between the Company and a related company, of which Mr. Xi Yu, an executive director of the Company, is a director and beneficial shareholder, up to a total facility amount of HK\$10 million. On 27 February 2003, the cross guarantee was released and replaced by a corporate guarantee solely provided by the related company to the Company.

REPORT OF THE DIRECTORS

MAJOR CUSTOMERS AND SUPPLIERS

During the year under review, sales to the Group's five largest customers and the largest customer included therein accounted for 43% and 17%, respectively, of the total sales for the year. Purchases from the Group's five largest suppliers and the largest supplier included therein accounted for 51% and 21%, respectively, of the total purchases for the year.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers during the year.

DIRECTORS' INTEREST IN A COMPETING BUSINESS

During the year and up to the date of this report, none of the directors of the Company or the management shareholders (as defined in the GEM Listing Rules) of the Company had an interest in a business which competed or might compete with the business of the Group.

AUDIT COMMITTEE

The Company established an audit committee in 2000 with written terms of reference in compliance with Rules 5.23 to 5.25 of the GEM Listing Rules. The primary duties of the audit committee are to review the Company's annual report and accounts, half-yearly reports and quarterly reports and to provide advice and comments thereon to the board of directors. The audit committee is also responsible for reviewing the financial reporting process and internal control system of the Group. The audit committee comprises the two independent non-executive directors of the Company, who are Dr. Chan Yan Cheong and Mr. Yuen Kim Hung, Michael. The audit committee held four meetings during the year ended 31 December 2003 and has performed the functions specified in the GEM Listing Rules.

BOARD PRACTICES AND PROCEDURES

In the opinion of the directors, the Company has complied with the requirements of Board Practices and Procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules throughout the accounting period covered by the annual report.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Hua Zhixiang

Chairman

Hong Kong
26 March 2004

REPORT OF THE AUDITORS

To the members

New Universe International Group Limited

(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 19 to 58 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2003 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young

Certified Public Accountants

Hong Kong

26 March 2004

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31 December 2003

	<i>Notes</i>	2003 HK\$'000	2002 <i>HK\$'000</i>
TURNOVER			
Continuing operations	6	70,106	50,390
Cost of sales		(52,944)	(45,122)
Gross profit		17,162	5,268
Other revenue and gains	6	1,682	990
Selling and distribution costs		(3,946)	(1,435)
Administrative expenses		(11,532)	(21,162)
Other operating expenses	7	(2,116)	(13,338)
Gain on disposal of a subsidiary (Discontinued operation)	4	11,060	–
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	8	12,310	(29,677)
Finance costs	9	(527)	(1,521)
PROFIT/(LOSS) BEFORE TAX			
Continuing operations		723	(31,198)
Discontinued operation	4	11,060	–
		11,783	(31,198)
Tax			
Continuing operations	12	(80)	–
PROFIT/(LOSS) BEFORE MINORITY INTERESTS		11,703	(31,198)
Minority interests		–	7
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES			
ATTRIBUTABLE TO SHAREHOLDERS	13, 28	11,703	(31,191)
EARNINGS/(LOSS) PER SHARE (cents)	14		
Basic		1.68	(6.64)
Diluted		N/A	N/A

CONSOLIDATED BALANCE SHEET

31 December 2003

	Notes	2003 HK\$'000	2002 HK\$'000
NON-CURRENT ASSETS			
Fixed assets	15	56,070	59,945
Long term investment	17	1,500	–
		57,570	59,945
CURRENT ASSETS			
Inventories	18	15,732	10,812
Trade receivables	19	8,397	5,258
Prepayments, deposits and other receivables		3,662	3,591
Tax recoverable		1,401	1,401
Cash and bank balances		9,102	1,850
		38,294	22,912
CURRENT LIABILITIES			
Interest-bearing bank borrowings	20	5,330	834
Trade and bills payables	21	14,948	9,086
Deposits received		8,118	7,387
Accrued liabilities and other payables		6,954	16,680
Finance lease payables	22	2,839	3,934
Tax payable		2,124	2,124
		40,313	40,045
NET CURRENT LIABILITIES		(2,019)	(17,133)
TOTAL ASSETS LESS CURRENT LIABILITIES		55,551	42,812
NON-CURRENT LIABILITIES			
Finance lease payables	22	(1,379)	(2,277)
Shareholder's loans	23	–	(25,000)
Due to a director	24	(515)	(1,654)
Deferred tax liabilities	25	(980)	(900)
		(2,874)	(29,831)
		52,677	12,981

CONSOLIDATED BALANCE SHEET

31 December 2003

	<i>Notes</i>	2003 HK\$'000	2002 <i>HK\$'000</i>
CAPITAL AND RESERVES			
Issued capital	26	53,200	23,500
Reserves	28	(523)	(10,519)
		52,677	12,981

Hua Zhixiang
Director

Xi Yu
Director

CONSOLIDATED SUMMARY STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2003

	<i>Notes</i>	2003 HK\$'000	2002 <i>HK\$'000</i>
Total equity at 1 January		12,981	43,583
Exchange differences on translation of the financial statements of an overseas subsidiary and gains not recognised in the profit and loss account	28	–	601
Release of exchange fluctuation reserve on liquidation of overseas subsidiaries	28	–	(12)
Issue of shares	26	29,700	–
Share issue expenses	26, 28	(1,707)	–
Net profit/(loss) from ordinary activities attributable to shareholders	28	11,703	(31,191)
Total equity at 31 December		52,677	12,981

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2003

	Notes	2003 HK\$'000	2002 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		11,783	(31,198)
Adjustments for:			
Interest expenses	9	527	1,521
Interest income	6	(12)	(13)
Loss on disposal of fixed assets	8	369	216
Gain on disposal of a subsidiary	4	(11,060)	–
Loss on liquidation of subsidiaries	7	–	1,717
Fixed assets written-off	7	–	5,770
Provision for doubtful debts	7	538	3,068
Negative goodwill recognised as income	6	–	(16)
Depreciation	8	9,808	11,842
Operating profit/(loss) before working capital changes		11,953	(7,093)
Decrease/(increase) in inventories		(4,920)	5,716
Decrease/(increase) in trade receivables		(3,677)	5,436
Decrease/(increase) in prepayments, deposits and other receivables		(71)	1,690
Increase/(decrease) in trade and bills payables		7,436	(12,557)
Decrease in accrued liabilities and other payables		(240)	(4,440)
Increase/(decrease) in deposits received		731	(5,159)
Increase/(decrease) in trust receipt loans		2,123	(1,871)
Increase/(decrease) in an amount due to a director		(1,139)	1,654
Cash generated from/(used in) operations		12,196	(16,624)
Interest received		12	13
Interest paid		(27)	(226)
Interest element on finance lease rental payments		(500)	(1,295)
Net cash inflow/(outflow) from operating activities		11,681	(18,132)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of fixed assets		(4,655)	(760)
Proceeds from disposal of fixed assets		353	634
Disposal/liquidation of subsidiaries	29(a)	–	(205)
Purchases of long term investment	17	(1,500)	–
Net cash outflow from investing activities		(5,802)	(331)

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2003

	<i>Notes</i>	2003 HK\$'000	2002 HK\$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		3,170	–
Repayment of bank loans		(797)	(1,869)
Proceeds from issue of new shares	26	4,700	–
Share issue expenses	26	(1,707)	–
Loans from a shareholder		–	25,000
Capital element of finance lease rental payments		(3,993)	(8,557)
Net cash inflow from financing activities		1,373	14,574
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
		7,252	(3,889)
Cash and cash equivalents at beginning of year		1,850	5,734
Effect of foreign exchange rate changes, net		–	5
CASH AND CASH EQUIVALENTS AT END OF YEAR		9,102	1,850
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		9,102	1,850

BALANCE SHEET

31 December 2003

	<i>Notes</i>	2003 HK\$'000	2002 <i>HK\$'000</i>
NON-CURRENT ASSETS			
Interests in subsidiaries	16	45,534	37,948
CURRENT ASSETS			
Prepayments		19	–
Cash and bank balances		393	59
		412	59
CURRENT LIABILITIES			
Interest-bearing bank borrowings	20	5,330	834
Accrued liabilities		520	70
		5,850	904
NET CURRENT LIABILITIES		(5,438)	(845)
TOTAL ASSETS LESS CURRENT LIABILITIES		40,096	37,103
NON-CURRENT LIABILITIES			
Shareholder's loans	23	–	(25,000)
		40,096	12,103
CAPITAL AND RESERVES			
Issued capital	26	53,200	23,500
Reserves	28	(13,104)	(11,397)
		40,096	12,103

Hua Zhixiang
Director

Xi Yu
Director

NOTES TO FINANCIAL STATEMENTS

31 December 2003

1. CORPORATE INFORMATION

The registered office of New Universe International Group Limited is located at Rooms 1802-1803, 18/F, Telford House, 16 Wang Hoi Road, Kowloon Bay, Kowloon, Hong Kong.

During the year, the Group was involved in the manufacture and sale of high precision molds and plastic products.

In the opinion of the directors, the ultimate holding company of the Company is New Universe Enterprises Limited which is incorporated in the British Virgin Islands.

2. IMPACT OF A REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE ("SSAP")

The revised SSAP 12 "Income taxes" is effective for the first time for the current year's financial statements and its effects are summarised as follows:

SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

The SSAP has had no significant impact for these financial statements on the amounts recorded for income taxes. However, the related note disclosures are now more extensive than previously required. These are detailed in note 12 to the financial statements and include a reconciliation between the accounting profit and the tax expense for the year.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2003. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint venture company

The Group's joint venture company is an independent business entity established and operating in Mainland China. The joint venture agreement and related constitution stipulate the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from operations and any distribution of surplus assets are shared in accordance with the terms of the joint venture agreement.

The Group's joint venture company is accounted for a subsidiary as the Group has unilateral control over the joint venture company.

Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Building and factory improvements	Over the remaining lease terms or the tenure of the joint venture
Plant and machinery	10% – 20%
Computers and equipment	20% – 30%
Furniture and fixtures	20%
Motor vehicles	30%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises.

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Long term investment

Long term investment in unlisted equity securities, intended to be held for a continuing strategic or long term purpose, is stated at cost less any impairment losses, on an individual investment basis.

When a decline in the fair value of a security below its carrying amount has occurred, unless there is evidence that the decline is temporary, the carrying amount of the security is reduced to its fair value, as estimated by the directors. The amount of the impairment is charged to the profit and loss account for the period in which it arises. When the circumstances and events which led to the impairment in value cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged is credited to the profit and loss account to the extent of the amount previously charged.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and manufactured finished goods, comprises direct materials, direct labour and an appropriate proportion of manufacturing overheads based on normal levels of activity. Net realisable value is based on the estimated selling prices less any estimated costs to be incurred to completion and disposal.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and
- (b) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

Deferred tax liabilities are recognised for all taxable temporary differences in respect of taxable temporary differences associated with investments in subsidiaries and a joint venture company, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised in respect of deductible temporary differences associated with investments in subsidiaries and a joint venture company, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries and a joint venture company are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries and a joint venture company are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries and a joint venture company are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries and a joint venture company which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Research and development costs

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Employee benefits

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

A subsidiary established in Mainland China maintains a defined contribution retirement plan for certain of its employees. It contributes to a state-sponsored retirement plan of approximately 17% of the basic salaries of its employees, and has no further obligations for the actual pension payments or post-retirement benefits beyond the annual contributions. The state-sponsored retirement plan is responsible for the entire pension obligations payable to retired employees. There were no forfeited contributions available to the Group to reduce its contributions in future years. The contributions are charged to the profit and loss account as they become payable in accordance with the rules of the state-sponsored retirement plan.

Share option schemes

The Company operates two share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option schemes is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Negative goodwill

Negative goodwill arising on the acquisition of subsidiaries represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over remaining average useful life of the acquired depreciable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves as appropriate.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

4. DISCONTINUED OPERATION

In December 2001, the Group abandoned its operation of an Internet server co-location centre, which was solely operated in Hong Kong. On 19 March 2003, a sale and purchase agreement was entered into between the Group and Centapoint Limited ("Centapoint"), an independent third party, whereby the Group agreed to dispose of its entire issued share capital in Sky Datamann (Hong Kong) Limited, the subsidiary of the Group involved in the above discontinued business, to Centapoint for a consideration of HK\$1.

The gain on disposal of the subsidiary of HK\$11,060,000 (note 29(a)) in respect of the discontinued operation is disclosed on the face of the consolidated profit and loss account.

The carrying amount of the total liabilities relating to the discontinued operation at 31 December 2002 amounted to HK\$11,146,000.

5. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

- (a) the mold products segment engages in the manufacture and sale of high precision molds; and
- (b) the plastic products segment engages in the manufacture and sale of plastic products.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

5. SEGMENT INFORMATION *(Continued)*

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

During the current and prior years, there were no intersegment transactions.

(a) Business segments

The following tables present revenue and profit/(loss) information for the Group's business segments.

Group

	Mold products		Plastic products		Consolidated	
	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:						
Sales to external customers	41,358	33,793	28,748	16,597	70,106	50,390
Other revenue and gains	496	492	210	81	706	573
Total	41,854	34,285	28,958	16,678	70,812	50,963
Segment results	1,113	(21,966)	1,411	(6,163)	2,524	(28,129)
Unallocated other revenue and gains					12,036	417
Unallocated expenses					(2,250)	(1,965)
Profit/(loss) from operating activities					12,310	(29,677)
Finance costs					(527)	(1,521)
Profit/(loss) before tax					11,783	(31,198)
Tax					(80)	–
Profit/(loss) before minority interests					11,703	(31,198)
Minority interests					–	7
Net profit/(loss) from ordinary activities attributable to shareholders					11,703	(31,191)

NOTES TO FINANCIAL STATEMENTS

31 December 2003

5. SEGMENT INFORMATION *(Continued)*

(a) Business segments *(Continued)*

The following tables present certain asset, liability and expenditure information for the Group's business segments.

Group

	Mold products		Plastic products		Consolidated	
	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	58,871	52,612	32,063	26,500	90,934	79,112
Unallocated assets					4,930	3,745
Total assets					95,864	82,857
Segment liabilities	21,507	16,754	6,455	2,564	27,962	19,318
Unallocated liabilities					15,225	50,558
Total liabilities					43,187	69,876
Other segment information:						
Depreciation	6,042	7,625	3,221	3,358		
Other non-cash expenses:						
– Fixed assets written-off	–	4,736	–	–		
– Loss on liquidation of subsidiaries	–	1,717	–	–		
– Provision for doubtful debts	538	551	–	2,499		
– Capital expenditure	3,589	2,566	2,920	36		

NOTES TO FINANCIAL STATEMENTS

31 December 2003

5. SEGMENT INFORMATION *(Continued)*

(b) Geographical segments

The following tables present revenue and certain asset and expenditure information for the Group's geographical segments.

Group

	Hong Kong		Mainland China		North America*		Japan		Others		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:												
Sales to external customers	26,154	14,179	18,612	13,205	15,522	9,831	1,608	9,207	8,210	3,968	70,106	50,390
Other revenue	140	-	566	263	-	310	-	-	-	-	706	573
	26,294	14,179	19,178	13,468	15,522	10,141	1,608	9,207	8,210	3,968	70,812	50,963

	Hong Kong		Mainland China		Others		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Other segment information:								
Segment assets	20,640	7,683	73,823	73,495	-	278	94,463	81,456
Capital expenditure	146	487	6,509	2,483	-	117	6,655	3,087

* North America principally relates to the United States and Canada.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

6. TURNOVER, REVENUE AND GAINS

Turnover represents the net invoiced value of goods sold, less sales returns and discounts. An analysis of turnover, revenue and gains is as follows:

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover – sale of goods	70,106	50,390
Interest income	12	13
Exchange gains, net	184	191
Negative goodwill recognised as income	–	16
Sundry income	1,486	770
Other revenue and gains	1,682	990
Total	71,788	51,380

7. OTHER OPERATING EXPENSES

Other operating expenses include the following items:

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Provision for doubtful debts	538	3,068
Fixed assets written-off	–	5,770
Loss on liquidation of subsidiaries – note 29(a)	–	1,717

NOTES TO FINANCIAL STATEMENTS

31 December 2003

8. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

The Group's profit/(loss) from operating activities is arrived at after charging/(crediting):

	2003	2002
	HK\$'000	HK\$'000
Depreciation	9,808	11,842
Auditors' remuneration	550	700
Staff costs (exclusive of directors' remuneration disclosed in note 10):		
Wages and salaries	11,335	16,117
Retirement benefits scheme contributions	109	158
Less: Forfeited contributions	(65)	(99)
Net retirement benefits scheme contributions	44	59
	11,379	16,176
Minimum lease payments under operating leases in respect of land and buildings	1,419	1,200
Payment for the use of an industrial plant	2,581	3,505
Cost of inventories sold	52,498	44,680
Research and development costs	–	245
Loss on disposal of fixed assets	369	216

9. FINANCE COSTS

	Group	
	2003	2002
	HK\$'000	HK\$'000
Interest expense on:		
Bank loans wholly repayable within five years	16	142
Finance leases	500	1,295
Import bills	11	84
	527	1,521

NOTES TO FINANCIAL STATEMENTS

31 December 2003

10. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the GEM of The Stock Exchange of Hong Kong Limited and Section 161 of the Companies Ordinance, is as follows:

	Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Fees	240	262
Other emoluments:		
Basic salaries and allowances	1,196	1,669
Retirement benefits scheme contributions	24	22
	1,460	1,953

The amounts of the remuneration paid by the Group to the two (2002: two) executive directors of the Company for the year ended 31 December 2003, analysed on an individual basis, were HK\$792,000 (2002: HK\$1,120,986), Nil (2002: HK\$570,000) and HK\$428,000 (2002: Nil), respectively.

The amounts of the remuneration paid by the Group to the two (2002: three) independent non-executive directors of the Company for the year ended 31 December 2003, analysed on an individual basis, were HK\$120,000 (2002: HK\$120,000), HK\$120,000 (2002: HK\$82,000) and Nil (2002: HK\$60,000), respectively.

During the year, a director agreed to waive a total remuneration of HK\$766,000 accrued in prior years. Apart from the above, there was no arrangement under which a director waived or agreed to waive any remuneration during the year.

During the year, no emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group, or as compensation for loss of office.

There were no other emoluments payable to the independent non-executive directors during the year (2002: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2003

11. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year included two (2002: two) directors, details of whose emoluments are set out in note 10 above. Details of the remuneration of the remaining three (2002: three) non-director, highest paid employees for the year are as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Basic salaries and allowances	993	826
Retirement benefits scheme contributions	36	32
	1,029	858

The remuneration of the non-director, highest paid employees whose remuneration fell within the following band is as follows:

	Number of employees	
	2003	2002
Nil – HK\$1,000,000	3	3

During the year, no emoluments were paid by the Group to the three non-director, highest paid employees as an inducement to join or upon joining the Group, or as compensation for loss of office.

12. TAX

No provision for Hong Kong profits tax has been made as the Group had accumulated tax losses brought forward from prior years to offset the estimated assessable profits arising in Hong Kong during the year. No provision for Hong Kong profits tax had been made in the prior year as the Group had no assessable profits arising in Hong Kong during that year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2003	2002
	HK\$'000	HK\$'000
Deferred tax (note 25) and total tax charge for the year	80	–

NOTES TO FINANCIAL STATEMENTS

31 December 2003

12. TAX (Continued)

The applicable corporate income tax rate applicable to Dongguan Smartech Tooling and Plastics Limited, a wholly-owned subsidiary established in Mainland China, is 24%.

A reconciliation of the tax expense applicable to profit/(loss) before tax using the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

Group – 2003

	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit/(loss) before tax	13,053		(1,270)		11,783	
Tax at the statutory/applicable tax rate	2,284	17.5	(305)	(24.0)	1,979	16.8
Effect on opening deferred tax of increase in tax rate	13		–		13	
Income not subject to tax	(1,962)		–		(1,962)	
Expenses not deductible for tax	1,349		305		1,654	
Tax losses utilised from previous periods	(1,604)		–		(1,604)	
Tax charge at the Group's effective rate	80	0.6	–	–	80	0.7

NOTES TO FINANCIAL STATEMENTS

31 December 2003

12. TAX (Continued)

Group – 2002

	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Loss before tax	(17,483)		(13,715)		(31,198)	
Tax at the statutory/applicable tax rate	(2,797)	(16.0)	(3,292)	(24.0)	(6,089)	(19.5)
Income not subject to tax	(2)		–		(2)	
Expenses not deductible for tax	1,857		3,292		5,149	
Tax losses utilised from previous periods	(335)		–		(335)	
Tax losses not recognised	1,277		–		1,277	
Tax charge at the Group's effective rate	–	–	–	–	–	–

13. NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit/(loss) from ordinary activities attributable to shareholders for the year ended 31 December 2003 dealt with in the financial statements of the Company was Nil (2002: net loss of HK\$30,753,000).

14. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the net profit from ordinary activities attributable to shareholders for the year of HK\$11,703,000 (2002: net loss of HK\$31,191,000), and the weighted average of 696,569,863 (2002: 470,000,000) ordinary shares in issue during the year, as adjusted to reflect the open offer (note 26(b)) and loan capitalisation (note 26(c)) during the year as described below.

Diluted earnings/(loss) per share for the years ended 31 December 2003 and 2002 have not been presented as the effect of any dilution is anti-dilutive.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

15. FIXED ASSETS

Group

	Building and factory improvements	Plant and machinery	Computers and equipment	Furniture and fixtures	Motor vehicles	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost:						
At beginning of year	26,424	64,796	12,795	4,307	2,233	110,555
Additions	3,522	2,820	146	–	167	6,655
Disposals/write-off	(1,039)	(584)	(10,467)	(145)	(594)	(12,829)
At 31 December 2003	28,907	67,032	2,474	4,162	1,806	104,381
Accumulated depreciation and impairment:						
At beginning of year	7,719	26,578	11,612	3,679	1,022	50,610
Depreciation provided during the year	1,581	6,952	455	461	359	9,808
Disposals/write-off	(1,039)	(141)	(10,467)	(145)	(315)	(12,107)
At 31 December 2003	8,261	33,389	1,600	3,995	1,066	48,311
Net book value:						
At 31 December 2003	20,646	33,643	874	167	740	56,070
At 31 December 2002	18,705	38,218	1,183	628	1,211	59,945

The net book value of the fixed assets of the Group held under finance leases included in the total amount of plant and machinery as at 31 December 2003 amounted to HK\$10,407,201 (2002: HK\$15,336,907).

16. INTERESTS IN SUBSIDIARIES

	Company	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	58,078	58,078
Due from subsidiaries	87,456	79,870
	145,534	137,948
Provision for impairment	(100,000)	(100,000)
	45,534	37,948

NOTES TO FINANCIAL STATEMENTS

31 December 2003

16. INTERESTS IN SUBSIDIARIES *(Continued)*

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the principal subsidiaries are as follows:

Company name	Place of incorporation/ establishment and operations	Nominal value of issued ordinary share/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2003	2002	
Smartech International Group Limited	British Virgin Islands/ Hong Kong	US\$1,000,000	100	100	Investment holding
Smartech Manufacturing Limited	Hong Kong	HK\$5,000,000	100	100	Manufacture and sale of molds
Dongguan Smartech Tooling & Plastics Limited ("Dongguan Smartech")	People's Republic of China ("PRC")/ Mainland China	US\$7,200,000 <i>(Note)</i>	100	100	Manufacture and sale of molds and plastic products
Smartech Plastic Moulding Limited	Hong Kong	HK\$100	100	100	Manufacture of plastic products
Smartech Services Limited	Hong Kong	HK\$2	100	100	Provision of management services
Smartech Solutions Limited	Hong Kong	HK\$2	100	100	Software development

Except for Smartech International Group Limited, all the above subsidiaries are indirectly held by the Company.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Note:

Dongguan Smartech is a Sino-foreign co-operative joint venture established in Mainland China with a tenure of 20 years expiring on 21 March 2016. The investment and registered capitals of Dongguan Smartech are US\$17,865,000 and US\$7,200,000, respectively, and the registered capital was solely contributed and fully paid up by the Group. According to the terms of the co-operative joint venture agreement, the Group is entitled to all the distributable profits of Dongguan Smartech after the payment of agreed annual fees, including the payment for the use of the industrial plant on a lease basis, to the PRC joint venture partner. Upon dissolution of the joint venture, the Group is entitled to the assets of the joint venture which are contributed by the Group. The directors of the Company are of the opinion that the Group is entitled to 100% of the operating results and net assets of the joint venture and, accordingly, the joint venture has been accounted for as a wholly-owned subsidiary of the Group.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

17. LONG TERM INVESTMENT

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted equity investment, at cost	1,500	–

18. INVENTORIES

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	3,012	1,165
Work in progress	10,743	8,296
Finished goods	1,171	635
Consumable tools	806	716
	15,732	10,812

19. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit. For the mold products segment, the credit period is generally granted to customers for a period of one month. For the plastic products segment, the credit period is generally for a period of one month, extending up to two months for major customers.

An aged analysis of the trade receivables as at the balance sheet date, based on invoice date and net of provisions, is as follows:

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 month	2,847	2,801
1 to 2 months	3,600	1,075
2 to 3 months	1,160	175
Over 3 months	790	1,207
	8,397	5,258

NOTES TO FINANCIAL STATEMENTS

31 December 2003

20. INTEREST-BEARING BANK BORROWINGS

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Bank loans – secured	2,373	–	2,373	–
Trust receipt loans – secured	2,957	834	2,957	834
Amounts due within one year classified as current liabilities	5,330	834	5,330	834

At the balance sheet date, all the above bank loans and trust receipt loans were payable on demand or not exceeding one year. The Company's and Group's banking facility was secured by (i) a corporate guarantee from a related company of which Mr. Xi Yu ("Mr. Xi"), an executive director of the Company, is a director and beneficial shareholder; and (ii) a personal guarantee from Mr. Xi.

21. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payables as at the balance sheet date, based on invoice date, is as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Within 1 month	2,055	1,945
1 to 2 months	2,592	1,582
2 to 3 months	2,441	1,025
Over 3 months	7,860	4,534
	14,948	9,086

Included in trade and bills payables are trade payables of HK\$822,000 (2002: Nil) due to a related company, which are repayable within 60 days, which represents similar credit terms to those offered by the related company to its major customers.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

22. FINANCE LEASE PAYABLES

The Group leases certain of its plant and machinery. These leases are classified as finance leases and have remaining lease terms ranging from less than one year to three years.

At 31 December 2003, the total future minimum lease payments under finance leases and their present values were as follows:

Group

	Minimum lease payments		Present value of minimum lease payments	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Amounts payable:				
Within one year	3,220	4,423	2,839	3,934
In the second year	804	2,506	747	2,199
In the third to fifth years, inclusive	646	90	632	78
Total minimum finance lease payments	4,670	7,019	4,218	6,211
Future finance charges	(452)	(808)		
Total net finance lease payables	4,218	6,211		
Portion classified as current liabilities	(2,839)	(3,934)		
Long term portion	1,379	2,277		

23. SHAREHOLDER'S LOANS

These shareholder's loans were unsecured, interest-free and were fully settled by way of capitalisation during the year (notes 26(c)).

24. DUE TO A DIRECTOR

The amount due to a director is unsecured, interest-free and not due for repayment within the next twelve months.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

25. DEFERRED TAX LIABILITIES

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Balance at beginning of year	900	900
Deferred tax charged to the profit and loss account during the year, including a charge of HK\$13,500 due to the effect of a change in tax rates – note 12	80	–
Balance at end of year	980	900

The Group's provision for deferred tax represents timing differences arising from accelerated depreciation allowances.

The Group has tax losses arising in Hong Kong of HK\$4,459,000 (2002: HK\$13,625,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

At 31 December 2003, there is no significant unrecognised deferred tax liability (2002: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries or a joint venture company as the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

26. SHARE CAPITAL

Shares

	Company	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Authorised:		
20,000,000,000 (2002: 1,000,000,000) ordinary shares of HK\$0.05 each	1,000,000	50,000
Issued and fully paid:		
1,064,000,000 (2002: 470,000,000) ordinary shares of HK\$0.05 each	53,200	23,500

Pursuant to an extraordinary general meeting held on 10 December 2003, the authorised share capital of the Company was increased from HK\$50,000,000 to HK\$1,000,000,000 by creation of 19,000,000,000 additional shares of HK\$0.05 each, ranking pari passu in all respects with the existing share capital of the Company.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

26. SHARE CAPITAL (Continued)

Movements in the issued share capital of Company during the current and prior year were as follows:

	Notes	Number of shares in issue	Issued share capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
At 1 January 2002		4,700,000,000	23,500	30,373	53,873
Share consolidation	(a)	(4,230,000,000)	–	–	–
At 31 December 2002 and 1 January 2003		470,000,000	23,500	30,373	53,873
Open offer	(b)	94,000,000	4,700	–	4,700
Loan capitalisation	(c)	200,000,000	10,000	–	10,000
Loan capitalisation	(c)	300,000,000	15,000	–	15,000
		594,000,000	29,700	–	29,700
Share issue expenses		–	–	(1,707)	(1,707)
At 31 December 2003		1,064,000,000	53,200	28,666	81,866

Notes:

- (a) Pursuant to an extraordinary general meeting passed on 11 July 2002, the authorised share capital of 10,000,000,000 ordinary shares of HK\$0.005 each of the Company were consolidated into 1,000,000,000 ordinary shares of HK\$0.05 each by consolidating every ten issued and unissued ordinary shares of HK\$0.005 each of the Company into one ordinary share of HK\$0.05 each (the "Share Consolidation").
- (b) Pursuant to an extraordinary general meeting passed on 20 March 2003, the Company raised HK\$4,700,000, before expenses, by way of an open offer of 94,000,000 new ordinary shares of HK\$0.05 each of the Company at HK\$0.05 per share in the proportion of one offer share for every five existing ordinary shares in issue.
- (c) On 9 April 2003 and 18 December 2003, 200,000,000 and 300,000,000 new ordinary shares, respectively, of HK\$0.05 each were allotted and issued to New Universe Enterprises Limited ("New Universe"), the major shareholder, at par. The aggregate subscription price of HK\$25,000,000 was satisfied by the capitalisation of shareholder's loans of HK\$25,000,000.

Share options

Details of the Company's share option schemes and the share options issued under the schemes are included in note 27 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

27. SHARE OPTION SCHEMES

The Company operates a Pre-IPO Share Option Plan (the "Pre-IPO Plan") and a new share option scheme (the "New Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The Company previously also operated an old share option scheme (the "Old Scheme") for similar purpose.

(i) The Pre-IPO Plan

On 4 May 2000, options to subscribe for 40,000,000 shares of the Company at an exercise price of HK\$0.50 per share (as adjusted for the Share Consolidation) were granted under the Pre-IPO Plan, with a vesting period from 4 May 2002 to 3 May 2005. Eligible participants of the Pre-IPO Plan include the Company's executive directors and other employees of the Group.

At 31 December 2003, the number of shares issuable under share options granted under the Pre-IPO Plan was 8,000,000 (as adjusted for the Share Consolidation), which represented approximately 0.75% of the Company's shares in issue as at that date.

The maximum number of shares issuable under share options to each eligible participant in the Pre-IPO Plan is limited to 25% of the aggregate number of shares of the Company for the time being issued and issuable under the Pre-IPO Plan. The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee.

During the year, 2,000,000 (as adjusted for the Share Consolidation) options outstanding under the Pre-IPO Plan lapsed upon cessation of the employment of the option holders. No share option had been granted or exercised under the Pre-IPO Plan during the year and up to the date of approval of these financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

27. SHARE OPTION SCHEMES (Continued)

(i) The Pre-IPO Plan (Continued)

The following share options were outstanding under the Pre-IPO Plan during the year:

Name or category of participant	Number of share options (as adjusted for the Share Consolidation)			Date of grant of share options*	Exercise period of share options	Exercise price of share options** (as adjusted for the Share Consolidation)	Price of the Company's shares	
	At 1 January 2003	Lapsed during the year	At 31 December 2003				At grant date of options	At exercise date of options
Director								
Tang Kwok Yuen	8,000,000	–	8,000,000	4 May 2000	4 May 2002 to 3 May 2005	HK\$0.50 per share	N/A	N/A
Other employees								
In aggregate	2,000,000	(2,000,000)	–	4 May 2000	4 May 2002 to 3 May 2005	HK\$0.50 per share	N/A	N/A
	10,000,000	(2,000,000)	8,000,000					

* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Share options which are cancelled prior to their exercise date are deleted from the register of outstanding options.

At the balance sheet date, the Company had 8,000,000 share options outstanding under the Pre-IPO Plan. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 8,000,000 additional ordinary shares of the Company and additional share capital of HK\$400,000 and share premium of HK\$3,600,000 (before issue expenses).

NOTES TO FINANCIAL STATEMENTS

31 December 2003

27. SHARE OPTION SCHEMES *(Continued)*

(ii) The Old Scheme

The Old Scheme was adopted by the shareholders of the Company on 4 May 2000 and, unless otherwise cancelled or amended, would remain in force for 10 years from that date. The Old Scheme became effective upon the listing of the Company's shares on 18 May 2000. Eligible participants of the Old Scheme included the Company's executive directors and other employees of the Group.

The maximum number of shares issuable under share options to each eligible participant in the Old Scheme was limited to 25% of the aggregate number of shares for the time being issued and issuable under the Old Scheme. The maximum number of ordinary shares in which options can be granted under the Old Scheme may not exceed 10% of the issued share capital of the Company from time to time.

The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted was determinable by the directors. In any event such period of time might not exceed a period of three years commencing on the expiry of two years after the date of the acceptance of the share options and expiring on the last day of the three year period, or 3 May 2010, whichever is earlier.

The exercise price of the share options was determinable by the directors, but might not be less than the higher of (i) the average closing price of the Company's shares in The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for the five trading days immediately preceding the date of the offer of the share options; and (ii) the closing price of the Company's ordinary shares on the date of the offer of the share options.

On 10 December 2003, an extraordinary general meeting was passed by the Company's shareholders for the adoption of the New Scheme in compliance with the requirements of the GEM Listing Rules and the termination of the Old Scheme. No option had been granted under the Old Scheme during the period from 4 May 2000 to the date of termination.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

27. SHARE OPTION SCHEMES *(Continued)*

(iii) The New Scheme

Eligible participants of the New Scheme include employees, executive and non-executive directors of the Group (including independent non-executive directors), suppliers of the Group, customers of the Group, professional advisers and consultants of the Group. The New Scheme became effective on 10 December 2003 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of exercisable share options currently permitted to be granted under the New Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the New Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of the offer of the share options.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of an ordinary share.

No share option had been granted under the New Scheme during the year and up to the date of approval of these financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

28. RESERVES

Group

	Notes	Share premium account HK\$'000	Exchange fluctuation reserve HK\$'000	Contributed surplus (note) HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2002		30,373	12	31,929	(42,231)	20,083
Translation differences arising on consolidation of an overseas subsidiary		-	601	-	-	601
Release on liquidation of subsidiaries	29(a)	-	(12)	-	-	(12)
Net loss for the year		-	-	-	(31,191)	(31,191)
At 31 December 2002 and 1 January 2003		30,373	601	31,929	(73,422)	(10,519)
Share issue expenses	26	(1,707)	-	-	-	(1,707)
Net profit for the year		-	-	-	11,703	11,703
At 31 December 2003		28,666	601	31,929	(61,719)	(523)

Company

	Note	Share premium account HK\$'000	Contributed surplus (note) HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2002		30,373	58,078	(69,095)	19,356
Net loss for the year		-	-	(30,753)	(30,753)
At 31 December 2002 and 1 January 2003		30,373	58,078	(99,848)	(11,397)
Share issue expenses	26	(1,707)	-	-	(1,707)
At 31 December 2003		28,666	58,078	(99,848)	(13,104)

Note:

The contributed surplus of the Group represents the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the Group reorganisation prior to the listing of the Company's shares, over the nominal value of the share capital of the Company issued in exchange therefor.

The contributed surplus of the Company represents the difference between the then combined net asset values of the subsidiaries acquired pursuant to the same reorganisation, over the nominal value of the share capital of the Company issued in exchange therefor.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Disposal/liquidation of subsidiaries

	Disposal of a subsidiary 2003 HK\$'000	Liquidation of subsidiaries 2002 HK\$'000
Net assets/(liabilities) disposed of:		
Fixed assets	–	2,709
Trade receivables	–	347
Inventories	–	1,128
Prepayments and other receivables	–	159
Cash and bank balances	–	205
Trade payables	(1,574)	(190)
Accrued liabilities	(9,486)	(1,327)
Deposits received	–	(1,302)
	(11,060)	1,729
Release of exchange fluctuation reserve – note 28	–	(12)
Gain/(loss) on disposal/liquidation of subsidiaries	11,060	(1,717)
	–	–

An analysis of the net outflow of cash and cash equivalents in respect of the disposal/liquidation of subsidiaries is as follows:

	2003 HK\$'000	2002 HK\$'000
Cash and bank balances disposed of and net outflow of cash and cash equivalents in respect of the disposal/liquidation of subsidiaries	–	205

The subsidiary disposed of during the year contributed HK\$11.1 million to consolidated profit after tax for the year ended 31 December 2003.

The subsidiaries liquidated in the prior year contributed HK\$6.7 million to turnover and HK\$3.4 million to the consolidated loss after tax for the year ended 31 December 2002.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(b) Major non-cash transactions

During the year, the following major non-cash transactions took place:

- (i) The Group entered into hire purchase arrangements in respect of fixed assets with a total capital value at the inception of the contracts of HK\$2,000,000 (2002: HK\$4,830,000).
- (ii) There were no attributable cash flows in respect of other operating expenses as set out in note 7 to the financial statements.
- (iii) During the year, 500,000,000 new ordinary shares were issued to New Universe to settle the shareholder's loans of HK\$25,000,000 (notes 23 and 26(c)).

30. COMMITMENTS

At the balance sheet date, the Group had the following commitments:

(a) Capital commitment

	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital commitment in respect of fixed assets contracted for	114	43

(b) Operating lease arrangements

The Group leases all of its office premises and an industrial plant in Mainland China under operating lease arrangements. Leases for the office premises are negotiated for terms ranging from one to three years. Leases for the industrial plant in Mainland China are negotiated for a term of approximately 16 years.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

30. COMMITMENTS *(Continued)*

(b) Operating lease arrangements *(Continued)*

At 31 December 2003, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Within one year	2,618	2,467
In the second to fifth years, inclusive	5,312	7,360
After five years	11,301	16,542
	19,231	26,369

In addition to the above commitments, the Group has committed to pay a sum of approximately HK\$10 million (2002: HK\$10.7 million) to Changan Enterprises General Company ("Changan"), the PRC joint venture partner of Dongguan Smartech and the landlord of the industrial plant, as compensation for the construction costs thereof. The payment is to be made by monthly installments of approximately HK\$64,000 each for a period of 16 years commencing on 1 January 2001. In addition, the Group has also committed to pay a sum of approximately HK\$5.2 million (2002: HK\$5.5 million) to Changan as a land management fee. The payment is to be made by monthly installments of approximately HK\$28,000 each for a period of five years commencing on 1 January 2000, subject to an increment of 15% for every five years. The commitments will end on 21 March 2016.

The Company had no significant commitments at the balance sheet date.

31. CONTINGENT LIABILITIES

At the balance sheet date, the Company had the following contingent liabilities not provided for in the financial statements:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Corporate guarantees on liabilities of a subsidiary in respect of obligations under finance leases	4,670	7,019

In addition to the above, as at 1 January 2003, the Company had contingent liabilities in relation to a cross guarantee between the Company and a related company, of which Mr. Xi Yu, an executive director of the Company, is a director and beneficial shareholder, up to a total facility amount of HK\$10 million. On 27 February 2003, the cross guarantee was released and replaced by a corporate guarantee solely provided by the related company to the Group.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

32. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group purchased raw materials amounting to HK\$2,026,575 (2002: HK\$290,125) from a related company of which Mr. Xi Yu, an executive director of the Company, is a director and beneficial shareholder. The directors consider that the purchases of raw materials were made according to the published prices and conditions similar to those offered to the major customers of the supplier.

33. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 26 March 2004.

FINANCIAL SUMMARY

31 December 2003

RESULTS

	Year ended 31 December				
	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000
TURNOVER – continuing operations	70,106	50,390	102,089	111,472	122,988
PROFIT/(LOSS) BEFORE TAX					
Continuing operations	723	(31,198)	(43,116)	13,535	24,443
Discontinued operation	11,060	–	(34,876)	–	–
	11,783	(31,198)	(77,992)	13,535	24,443
Tax – continuing operations	(80)	–	364	(3,413)	(4,454)
PROFIT/(LOSS) BEFORE MINORITY INTERESTS	11,703	(31,198)	(77,628)	10,122	19,989
Minority interests	–	7	8	2	(33)
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	11,703	(31,191)	(77,620)	10,124	19,956

ASSETS, LIABILITIES AND MINORITY INTERESTS

	As at 31 December				
	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000
TOTAL ASSETS	95,864	82,857	121,752	194,805	113,185
TOTAL LIABILITIES	(43,187)	(69,876)	(78,146)	(95,442)	(55,810)
MINORITY INTERESTS	–	–	(23)	(31)	(33)
	52,677	12,981	43,583	99,332	57,342

The summary financial information of the Group for the last five financial years, as extracted from the published audited financial statements and reclassified as appropriate.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the members of New Universe International Group Limited (the "Company") will be held at Rooms 1802-3, 18th Floor, Telford House, 16 Wang Hoi Road, Kowloon Bay, Kowloon, Hong Kong on Friday, 23 April 2004 at 3:30 p.m. for the following purposes:

1. To receive and consider the audited consolidated financial statements and the reports of the directors of the Company ("the Directors") and of the auditors for the year ended 31 December 2003;
2. To re-elect Directors and to authorise the board of Directors ("the Board") to fix the Directors' remuneration;
3. To re-appoint auditors and to authorise the Board to fix their remuneration;
4. To consider as special business and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution:

"THAT

- (a) subject to paragraph (b) of this resolution, the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to repurchase ordinary shares in the capital of the Company on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") or on any other stock exchange on which the securities of the Company may be listed and recognised by the Securities and Futures Commission and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange or any other stock exchange as amended from time to time, be and is hereby generally and unconditionally approved;
- (b) the total nominal amount of shares to be repurchased pursuant to the approval in paragraph (a) above shall not exceed 10 per cent. of the total nominal amount of the share capital of the Company in issue on the date of this resolution and the said approval shall be limited accordingly; and
- (c) for the purpose of this resolution, "Relevant Period" means the period from the passing of this resolution until whichever is the earlier of:
 - (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the revocation or variation of the authority given under this resolution by ordinary resolution of the shareholders in general meetings; or

NOTICE OF ANNUAL GENERAL MEETING

- (iii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association of the Company or any applicable laws to be held.”;

- 5. To consider as special business and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution:

“THAT

- (a) Subject to the following provisions of this Resolution, pursuant to the Rules Governing the Listing of Securities on the GEM, the exercise by the Directors during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options which would or might require the exercise of such powers be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) of this resolution shall be in addition to any other authorisation given to the Directors and shall authorise the Directors during the Relevant Period to make or grant offers, agreements and options which would or might require the exercise of such powers during or after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) and issued by the Directors of the Company pursuant to the approval in paragraph (a) of this Resolution, otherwise than pursuant to (i) a Rights Issue where shares are offered to shareholders on a fixed record date in proportion to their then holdings of shares (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in any territory outside Hong Kong); or (ii) any option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares in the capital of the Company; or (iii) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the Articles of Association of the Company, shall not exceed 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this Resolution and the said approval shall be limited accordingly; and
- (d) for the purpose of this resolution, “Relevant Period” means the period from the passing of this Resolution until whichever is the earlier of:
 - (i) the conclusion of the next Annual General Meeting of the Company;

NOTICE OF ANNUAL GENERAL MEETING

D. by deleting Article 76 and substituting thereof the following:

76. (1) No Member shall, unless the Board otherwise determines, be entitled to attend and vote and to be reckoned in a quorum at any general meeting unless he is duly registered and all calls or other sums presently payable by him in respect of shares in the Company have been paid.
- (2) Where any Member is, under the rules of the Designated Stock Exchange, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such Member in contravention of such requirement or restriction shall not be counted.

E. by deleting Article 88 and substituting thereof the following:

88. No person other than a Director retiring at the meeting shall, unless recommended by the Directors for election, be eligible for election as a Director at any general meeting unless a Notice signed by a Member (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also a Notice signed by the person to be proposed of his willingness to be elected shall have been lodged at the head office or at the Registration Office provided that the minimum length of the period, during which such Notice(s) are given, shall be at least seven (7) days and that the period for lodgment of such Notice(s) shall commence no earlier than the day after the dispatch of the notice of the general meeting appointed for such election and end no later than seven (7) days prior to the date of such general meeting.

F. by deleting Article 103 and substituting thereof the following:

103. (1) A Director shall not vote (nor be counted in the quorum) on any resolution of the Board approving any contract or arrangement or any other proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters namely:
- (i) any contract or arrangement for the giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (ii) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

NOTICE OF ANNUAL GENERAL MEETING

- (iii) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
 - (iv) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company or any of its subsidiaries by virtue only of his/their interest in shares or debentures or other securities of the Company;
 - (v) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder other than a company in which the Director and/or his associate(s) is/are beneficially interested in five (5) per cent. or more of the issued shares or of the voting rights of any class of shares of such company (or any third company through which his interest or that of any of his associates is derived); or
 - (vi) any proposal concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death or disability benefits scheme or other arrangement which relates both to directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded to the employees to which such scheme or fund relates.
- (2) A company shall be deemed to be a company in which a Director and/or his associate(s) owns five (5) per cent. or more if and so long as (but only if so long as) he and/or his associates (either directly or indirectly) are the holders of or beneficially interested in five (5) per cent. or more of any class of the equity share capital of such company or of the voting rights available to members of such company (or of any third company through which his interest or that of any of his associates is derived). For the purpose of this paragraph there shall be disregarded any shares held by a Director or his associate(s) as bare or custodian trustee and in which he or any of them has no beneficial interest, any shares comprised in a trust in which the interest of the Director or his associate(s) is/are in reversion or remainder if and so long a some other person is entitled to receive the income thereof, and any shares comprised in an authorised unit trust scheme in which the Director or his associate(s) is/are interested only as a unit holder and any shares which carry no voting right at general meetings and very restrictive dividend and return of capital right.

NOTICE OF ANNUAL GENERAL MEETING

- (3) where a company in which a Director and/or his associate(s) holds five (5) per cent. or more is/are materially interested in a transaction, then that Director and/or his associate(s) shall also be deemed materially interested in such transaction.
- (4) If any question shall arise at any meeting of the Board as to the materiality of the interest of a Director (other than the chairman of the meeting) or his associate(s) or as to the entitlement of any Director (other than such chairman) to vote and such question is not resolved by his voluntarily agreeing to abstain from voting, such question shall be referred to the chairman of the meeting and his ruling in relation to such other Director shall be final and conclusive except in a case where the nature or extent of the interest of the Director and/or his associate(s) concerned as known to such Director has not been fairly disclosed to the Board. If any question as aforesaid shall arise in respect of the chairman of the meeting such question shall be decided by a resolution of the Board (for which purpose such chairman shall not vote thereon) and such resolution shall be final and conclusive except in a case where the nature or extent of the interest of such chairman as known to such chairman has not been fairly disclosed to the Board.

G. by deleting Article 104(4)(i) and substituting thereof the following:

104(4)(i) make a loan to a Director or a director of any holding company of the Company or to any of their respective associates (as defined by the rules, where applicable, of the Designated Stock Exchange)

By Order of the Board

Hua Zhixiang

Chairman

Hong Kong, 31 March 2004

NOTICE OF ANNUAL GENERAL MEETING

Registered office:

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681GT
George Town
Grand Cayman
British West Indies

Head office and

principal place of business:

Rooms 1802-3, 18th Floor
Telford House
16 Wang Hoi Road
Kowloon Bay
Kowloon
Hong Kong

Notes:

- (a) The Register of Members of the Company will be closed from Tuesday, 20 April 2004 to Friday, 23 April 2004, both days inclusive, during which period no transfer of shares can be registered. In order to qualify for attending the Meeting convened by the above notice, all transfers accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar in Hong Kong, Tengis Limited at Ground Floor, Bank of East Asia Harbour View Center, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00 p.m. on Monday, 19 April 2004.
- (b) A member of the Company entitled to attend and vote at the Meeting is entitled to appoint more than one proxy to attend and vote on his behalf. A proxy need not be a member of the Company but must be present in person to represent the member. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.
- (c) The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed, or a certified copy of such power or authority, must be lodged with the Company's Branch Share Registrar in Hong Kong, Tengis Limited at Ground Floor, Bank of East Asia, Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, Hong Kong not less than 48 hours before the time fixed for holding the Meeting.
- (d) A circular setting out further information regarding Resolutions 4 to 6 above has been despatched to shareholders of the Company.
- (e) Where there are joint holders of shares, any one of such joint holder may vote, either in person or by proxy but if more than one of such joint holders be present at any meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders and for this purpose, seniority shall be determined by the order in which the names stand in the register in respect of the joint holding.